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RHEHNSC/NSC WASHINGTON DC  
RUEHKO/AMEMBASSY TOKYO 5259  
RUEHBJ/AMEMBASSY BEIJING 5153  
RUEHGP/AMEMBASSY SINGAPORE 6173  
RUEHHK/AMCONSUL HONG KONG 3771  
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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - DECEMBER 2008

#### Inter-Korean Economic Cooperation

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- Gyeonggi Province Reduces Its 2009 Inter-Korean Cooperation Budget
- ROKG Provides USD 5.4 Million of Loans for Hyundai Asan Contractors
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- North Korea Launches 3G Mobile Service in USD 400 Million Deal with Orascom
- Dutch Trade Delegation Visits DPRK
- DPRK May Take Part in Russian Preparations for 2012 Vladivostok APEC Summit
- DPRK Insurance Firm Wins USD 57 Million Lawsuit in UK

#### Inter-Korean Economic Cooperation

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1. (U) Inter-Korean Exchange Fund Allocation to Increase in 2009, although National Assembly Slashes ROKG Share: The Ministry of Unification (MOU) said December 14 that it will set aside about 1.5 trillion won (USD 1.1 billion) in 2009 to facilitate economic and humanitarian exchanges with North Korea, including 400,000 metric tons of rice aid. The amount represents an 8.6 percent increase

from the 1.39 trillion won earmarked for the public/private inter-Korean cooperation fund (IKCF) in 2008 (but a decrease in dollar terms due to the weakening of the won in late 2008). MOU said that the National Assembly, however, cut the amount of the government's contribution to the fund to 350 billion won (USD 255 million) from the 650 billion won (USD 473.5 million) originally proposed by the MOU. Note: IKCF is comprised of government funds and private sector contributions and can draw on reserves to meet a possible budget shortfall in 2009. In 2008, we estimate that only 20 percent of the IKCF budget was spent because of the ongoing freeze in inter-Korean relations.

12. (U) Gyeonggi Province Reduces Its 2009 Inter-Korean Cooperation Budget: South Korea's Gyeonggi Provincial government said December 25 that it reduced its cooperation budget with North Korea from 6 billion won (USD 5.4 million) in 2008 to 4.3 billion won (USD 3.3 million) in 2009. Due to the stalled inter-Korean ties in 2008, the provincial government spent only 30 percent of the planned inter-Korean cooperation project budget. Planned 2009 projects for North Korea include seedlings, malaria preventive measures and rice paddy modernization. Note: Provincial government programs are not part of the IKCF.

13. (U) ROKG Provides USD 5.4 Million of Loans for Hyundai Asan Contractors: MOU said December 26 that it has decided to provide 7 billion won (USD 5.44 million) of loans from the Inter-Korean Cooperation Fund for contractors of Hyundai Asan Corporation who have been involved in Mount Geumgang tour project. The contractors have been facing financial difficulties since the Mount Geumgang tour was suspended in July 2008. The loans will mature in a year with a concessional 2 percent interest rate.

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14. (U) ROKG to Build KIC Nursery in Early 2009: The administrative body for KIC, the Kaesong District Management Committee (KIDMAC), said December 29 that the ROKG has decided to spend 900 million won (USD 690,000) to build a nursery for infants of workers at the Kaesong Industrial Complex (KIC) in 2009. The facility is intended to accommodate 200 infants.

15. (U) KIC Firms Request Compensation for USD 100 Million in Recent Losses: Yonhap News Agency reported in December that South Korean firms operating at the KIC have recently asked the South Korean government to compensate them for their recent losses. The 88 KIC firms currently operating at the KIC face financial losses after North Korea decided to halve the number of South Koreans stationed at the KIC. According to the association of the KIC firms, they have lost 110 billion won (USD 100 million) in losses for the past three months due to the stalled inter-Korean ties. However, the South Korean government does not seem to be considering the KIC firms' demand. In a related development, opposition lawmaker Chun Jung-bae claimed on December 16 that seven South Korean companies that have leased factory sites in the KIC have started to cancel plans to build factories as concerns mount about deteriorating inter-Korean ties since October 2008.

#### Domestic Economy

16. (U) U.S. Scholar Expects DPRK Economy to Get Worse in 2009: Radio Free Asia (RFA) quoted John Park, senior research associate of the United States Institute of Peace, on December 2 as saying that the North Korean economy in 2009 is expected to deteriorate further. Park cited the following factors: falling prices of raw materials (North Korea's major exports are coal, zinc, iron ore and nickel); weak infrastructure in North Korea (firms from Singapore, Egypt, China and the EU have recently invested in North Korea on a small scale, but have faced difficulties due to poor infrastructure in the North); and, North Korea's closed economic policy.

17. (U) UN: DPRK Grain Harvest Increases 17 Percent; but 850kmt of Food Aid Still Needed in 2009: RFA reported on December 8 that World Food Program (WFP) and Food and Agriculture Organization (FAO) officials said that North Korea's grain production in harvest year

2008 totaled 4.21 million metric tons (mt) (unmilled or 3.3 million mt milled), an increase of 17 percent from the previous harvest. Food shortages in 2009 are expected to be smaller than in 2008, when WFP estimated a shortage of 1.66 million mt. WFP estimates that North Korea will still require at least an additional 850,000 mt of food in 2009 to feed the population. South Korea's Rural Development Administration on December 18 provided a far more favorable assessment of North Korea's fall 2008 grain harvest -- 4.31 million mt (milled).

#### Foreign Aid

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18. (U) Sixth Shipment of U.S. Food Aid in DPRK: South Korean media reported on December 24 that the State Department said the U.S. Government had recently shipped the sixth batch of food aid to North Korea and that it would arrive in North Korea on January 8, 2009. The 21,000 metric tons of corn will be delivered to 25 counties in Jagang and Pyongan Provinces in North Korea. The next shipment consisting of 4,940 tons of corn-soya blend and oil is scheduled to arrive in North Korea on January 19, 2009. The U.S. Government has so far provided a total of 144,330 metric tons of food aid to North Korea out of the pledged 500,000 metric tons. Note: Radio Free Asia confirmed arrival in early January.

19. (U) USG Spent USD 4 Million for DPRK Medical Aid in 2008: Radio Free Asia reported December 20 that the U.S. Government had spent USD 4 million in 2008 via its NGOs to help North Korea improve its medical sector. The amount was 40 times higher than that of 2007.

110. (U) ROK NGO Sends Food Aid to DPRK: Jungto Society (JTS), a South Korean NGO helping North Korea, said December 30 that it shipped 380 million won (USD 302,307) worth of baby formula to North Korea. The 25 tons of seaweed gruel powder, 50 tons of wheat flour, 28 tons of baby formula, 20 tons of sugar and one ton of salt will

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be provided to 6,300 infants and 2,500 mothers in Hoeryeong, North Hamgyeong Province, North Korea. Earlier in 2008, JTS provided 150 million won (USD 119,331) worth of medical devices to the North Hamgyeong Provincial People's Hospital in North Korea.

#### Foreign Trade and Investment

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111. (U) DPRK Ranks Eleventh in Arms Sales to Developing Nations (2000-07): Radio Free Asia on December 8 quoted a Congressional Research Service report that North Korea ranked eleventh in arms sales to developing nations from 2000 to 2007 with total sales of USD 1 billion. No further details of the arms deliveries were reported.

112. (U) DPRK Raises Tariff on Imported Cars to 100 Percent: Japanese Mainichi Newspaper reported on December 22 that North Korea had increased duties on imported cars from 30 to 100 percent beginning from October 1, 2008. The newspaper reported that production in the North's auto plants is just 10 percent of capacity, mainly due to energy shortages. North Korean annual vehicle production amounts to under 5,000 cars. A North Korea expert said that the increase of import duties is to protect domestic automakers such as Pyeonghwa Motors. Note: Pyeonghwa Motors was established in 2004 through an investment deal involving a South Korean Unification Church group. The joint venture automaker currently produces just a few hundred cars a year at its plant in Nampo.

113. (U) DPRK to Ban Imports of Used Chinese Cars from 2009: Radio Free Asia reported on November 27 that a Chinese source said that North Korea recently banned imports of used Chinese vehicles into North Korea from 2009 in a bid to protect its domestic market. Hwacheon Motors, a China-based auto dealer in a contract with Pyeonghwa Motors, is reportedly exempt from the ban. Although imports of used Japanese cars to North Korea were banned in January

2007, trading of second-hand Chinese cars was tolerated heretofore.

¶14. (U) German-DPRK Trade Continues to Drop: Korea Trade and Investment Promotion Agency (KOTRA) reported Germany's Federal Statistical Office December 26 as saying that North Korea's bilateral trade with Germany has continuously declined since 2002. The decline in trade with Germany is mainly attributable to North Korea's unstable political situation, past defaults on foreign debts and nuclear weapons development. North Korea's trade with Germany in 2007 plunged 40 percent from 2006 to a total of USD 48 million, while January-September 2008 trade amounted to only USD 36 million.

North Korea's major exports to Germany include garments, metal and minerals while its major imports from Germany consist of chemical, machinery and medical devices.

#### DPRK-Germany Trade

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Unit: USD Million)

YEAR	DPRK Exports	DPRK Imports	TOTAL	CHANGE
2006	64	17	81	(25)
2007	33	15	48	(40)
2008	27	9	36	N/A

Source: Federal Statistical Office of Germany

¶15. (U) Chinese Tour Agency Expands DPRK Tour for Foreigners in 2009: Radio Free Asia on December 18 quoted China-based Koryo Tour Agency as saying that the North Korean authority will soon open up Chilbo Mountain, beaches in Chungjin and Haejoo, and limited areas in Pyongyang, North Korea for foreign tourists in February 2009. The Koryo Tour Agency said, "In 2009, we intend to go to even more places than ever before, some wholly new areas and some expanded attractions in more familiar places." The tour agency said that more than 1,000 Chinese and foreign tourists (including Americans) visited North Korea in 2008 and the number of foreign tourists to North Korea would continue to grow.

¶16. (U) DPRK May Oust Inactive Firms from Rajin-Sunbong Economic Zone: Kim Ho-nyoun, MOU spokesman, reported December 16 that North Korean authorities are planning to remove inoperative foreign companies from Rajin-Sunbong special economic zone in northeastern North Korea. Kim said, "North Korea appears to have conducted a

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survey in October 2008 to cull companies that exist only on paper from the Rajin-Sunbong economic zone."

¶17. (U) North Korea Launches 3G Mobile Service in USD 400 Million Deal with Orascom: North Korea's Central News Agency (KCNA) reported December 15 that Orascom Telecom Holding (OTH), an Egypt-based telecommunication service provider, launched 3G mobile service in Pyongyang, North Korea. Ro Tu-chol, vice premier of the North Korean cabinet, Ryu Yong-sop, Minister of Post and Telecommunication, and Naguib Sawiris, Chairman and CEO of OTH and Ismail Abdelrahman Ghoneim Hussein, Egyptian Ambassador to Pyongyang were present for the launching ceremony on December 15 in Pyongyang, North Korea. North Korea began mobile service in November 2002, but the service was banned shortly after the Ryongchun train explosion in April 2002. The new mobile service is reportedly voice communication only and the service will be limited initially to Pyongyang. OTH reportedly invested USD 200 million in network infrastructure and plans to invest an additional USD 200 million in the next two years. OTH owns a 75 percent stake while the North's state-owned Korea Post and Telecommunications Corporation holds a 25 percent stake.

¶18. (U) Dutch Trade Delegation Visits DPRK: KOTRA on December 17 reported that the Internet homepage of GPI Consultancy, a Netherlands-based consulting firm, claimed that GPI led a trade mission consisting of the Netherlands Council for Trade Promotion and Amsterdam Chamber of Commerce to North Korea on September 30-October 4 to seek business opportunities. The trade mission members' business areas include agriculture, light industry and computer software.

¶19. (U) DPRK May Take Part in Russian Preparations for 2012 Vladivostok APEC Summit: KOTRA on December 17 announced that Primedia, a Russian newspaper, reported that North Korea and Primorsky Territory, Far Eastern Russia, had an economic working-level meeting on November 28 in Primorsky and signed a protocol. Igor Oleisky, Vice Governor of the Primorsky Krai Regional Administration and Ri Myong-san, Vice Minister of North Korea's Foreign Ministry signed the protocol. Under the protocol, North Korea agreed to take part in the preparation of the 2012 Vladivostok APEC Summit. North Korea plans to take part in building roads, sea bridges, an international convention center, a power plant, a power distribution center, sewage facilities, hotels and a press center, and the modernization of Vladivostok airport. The two sides also agreed to cooperate in shipbuilding, ship repair, the fisheries industry, trade, banking services and the medical sector.

¶20. (U) DPRK Insurance Firm Wins USD 57 Million Lawsuit in UK: The (North) Korea National Insurance Corporation (KNIC), a state-run firm in Pyongyang, North Korea, recently won a court case against a group of international insurance firms led by a subsidiary of German insurance giant Allianz Group for more than 44 million Euros (USD 57 million). The litigation began in Britain's High Court in January ¶2007. The lawsuit charged that the insurers refused to pay reinsurance claims on a helicopter belonging to North Korea's Air Koryo which crashed in 2005 and destroyed a warehouse near Pyongyang, North Korea. The reinsurers argued unsuccessfully that the underlying insurance claim was a fraudulent method for North Korea to bring in cash.

STEPHENS